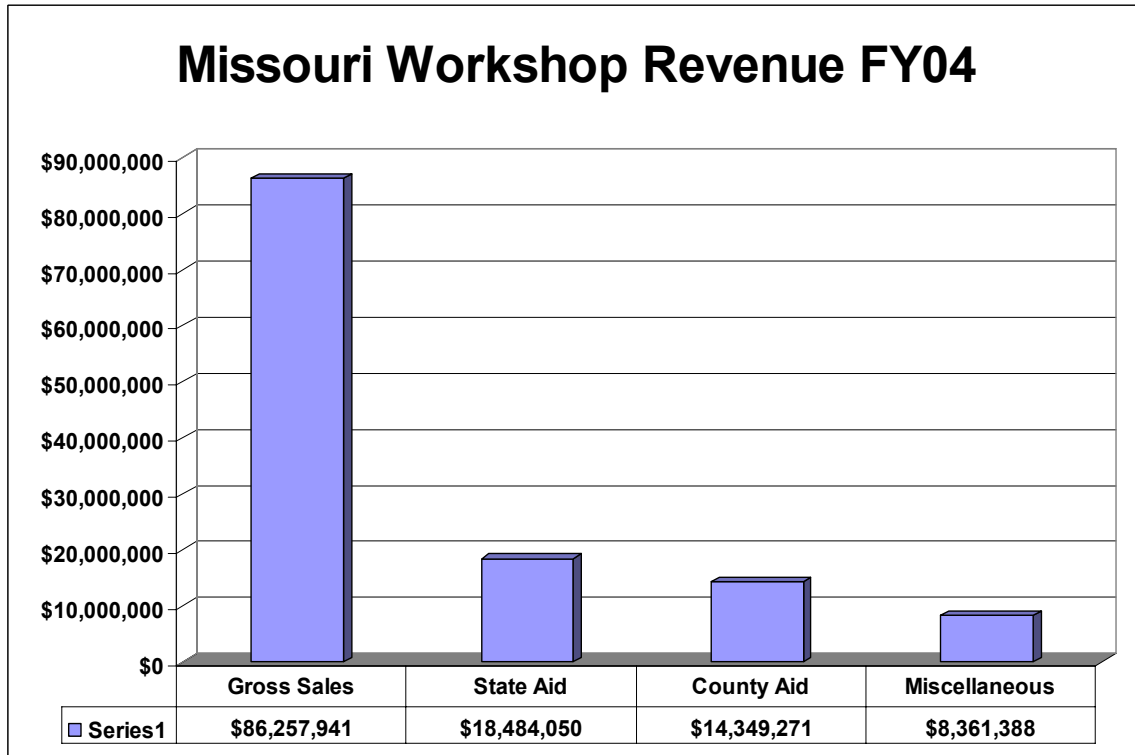


Missouri Sheltered Workshops FY 2004

Missouri workshops continued to grow through the year despite an economy that remained somewhat static. The following chart indicates this past year's revenue sources.

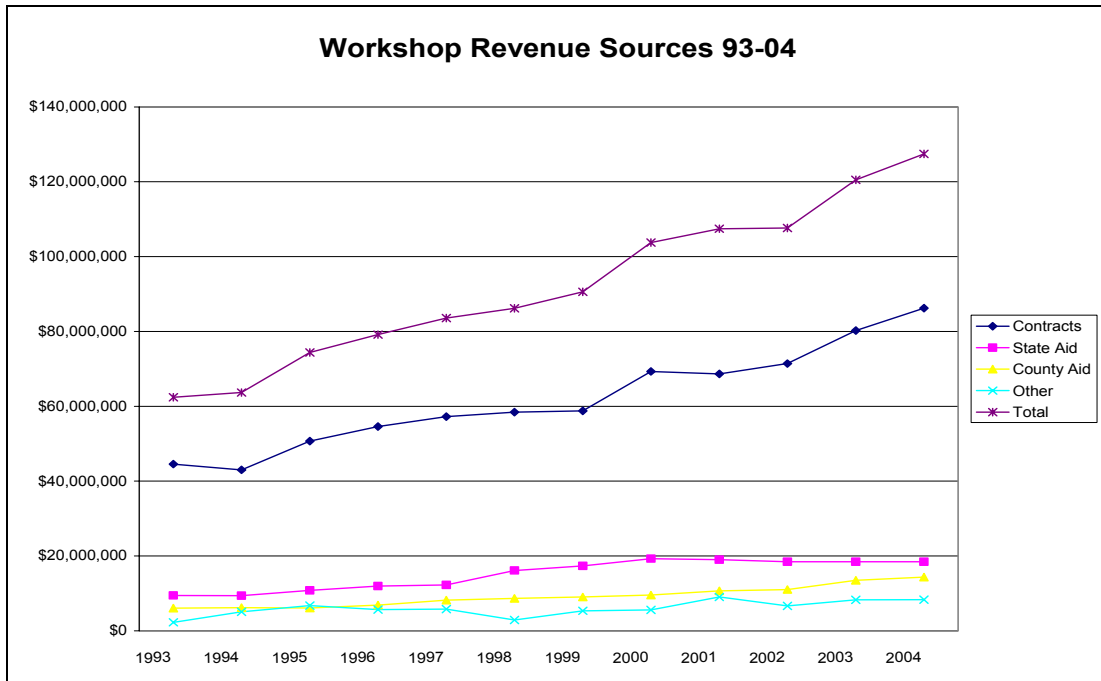


FY 2004 was a good year from the standpoint of gross sales. For every dollar in state aid paid the workshops earned \$4.67 or a 4.67:1 ratio of return. The chart below indicates that sales continue to increase from year to year. Sales, however, continue to be a challenge for workshops, with automation and overseas labor driving prices down and making bidding more competitive.

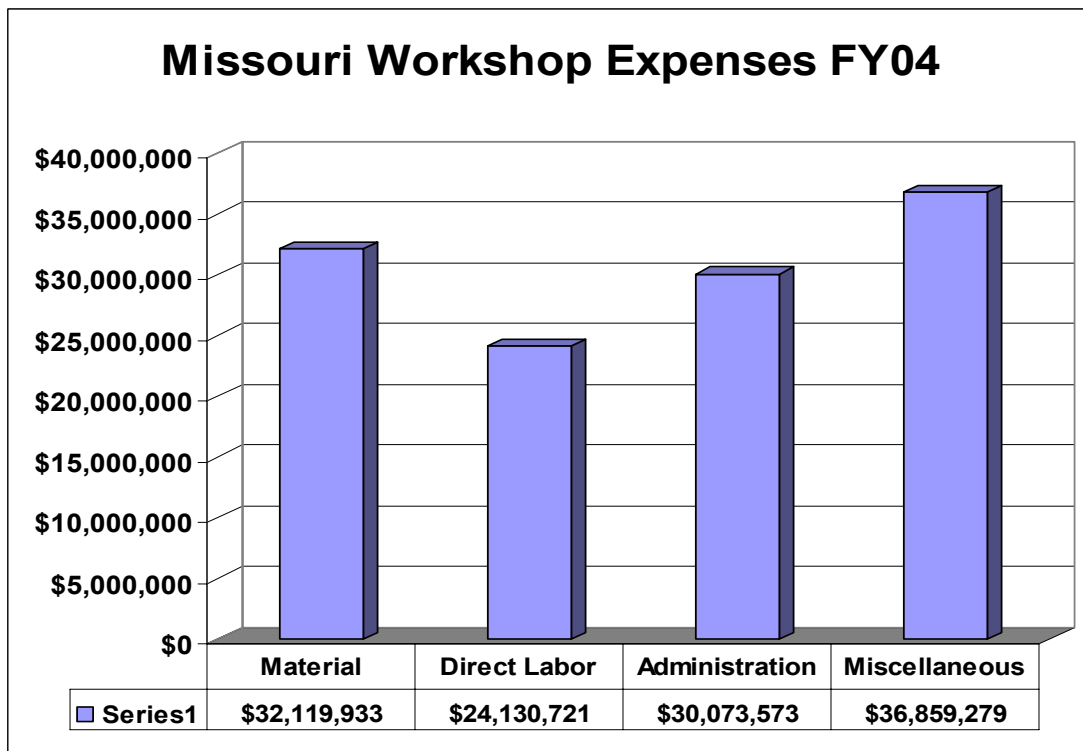
Maintaining enough work in the shops at a price that will cover all costs (labor, material, and overhead) continues to be the biggest challenge facing workshop management. As the ability and productivity of the workforce in workshops declines, price competition, quality, and turnaround time present significant challenges to staff. As indicated in the chart below workshops have, so far, been able to meet the challenge and increase sales while other funding sources remain level.

Workshops have had to become more efficient, as have other manufacturing facilities, to remain competitive. Automatic shrink wrap, blister packaging, and stretch wrapping machines observed in many shops today are a few examples of methods of increasing efficiency in workshop operations. In general, workshops continue to struggle to find hand packaging and assembly work due to the competition from automation and inexpensive foreign labor. Workshops have, out of necessity, become more creative.

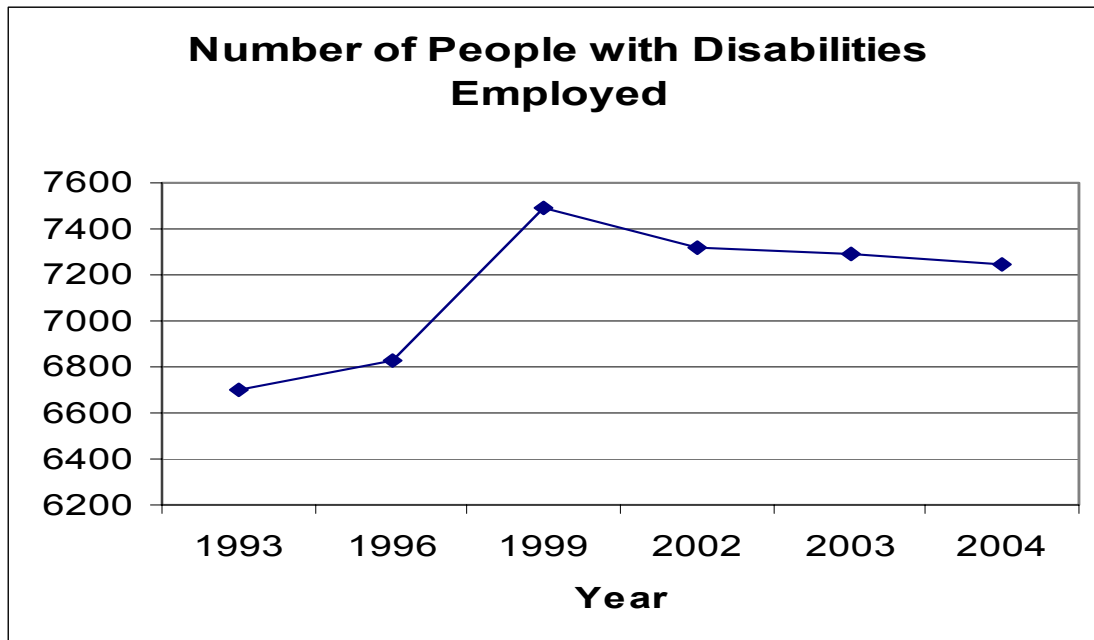
Many have turned to alternative businesses such as grounds maintenance, janitorial work, recycling, and thrift stores.



Unfortunately as sales have increased so have expenses, especially in the area of materials, and miscellaneous (overhead) costs.

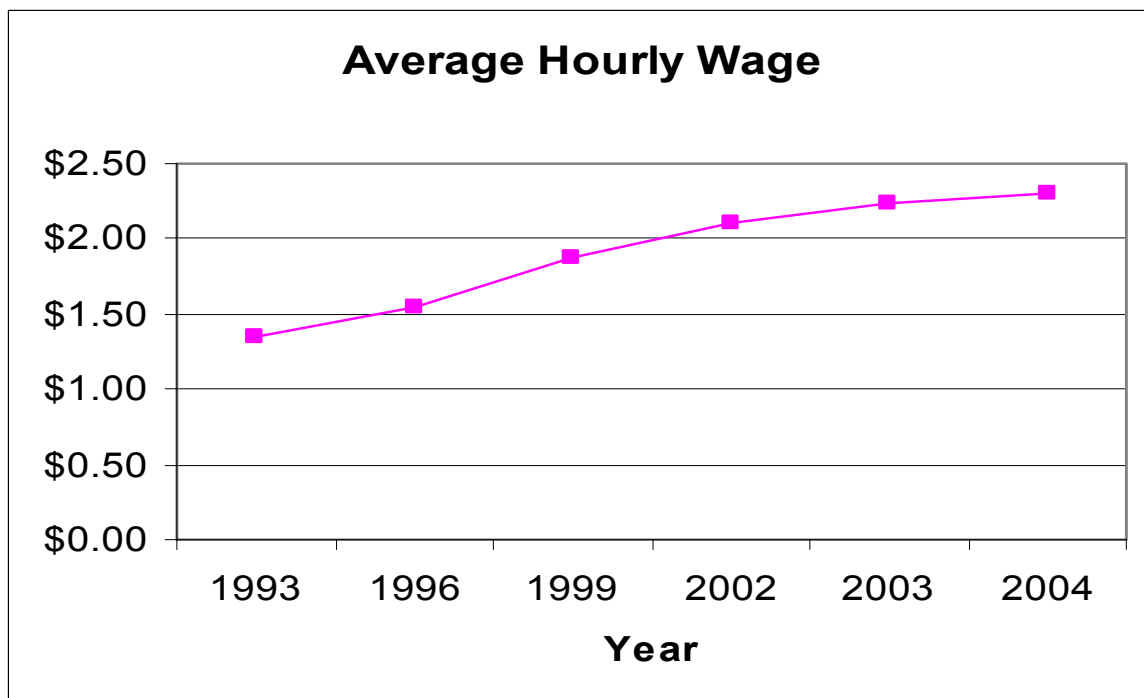


Employment has remained fairly constant, despite the increase in sales revenue.



Please keep in mind the number shown is a set number of employees at a set time. This does not take into consideration all of the people affected by workshops during the year considering attrition, retirement, relocation, etc. This number is hard to determine but is most likely around 8,000. A recent survey of shops indicated approximately 1200 on waiting lists.

The average hourly wage continues to increase as local prevailing wage rates increase.



Workshops do not pay sub-minimum wage but rather commensurate wages based on the employee's ability to produce in relation to a non-disabled standard. Workshops are required to determine prevailing wage rates for like type work done by experienced workers in the community. FY 2004 salaries in the majority of shops were in the \$7 to \$8 per hour range. Employees are evaluated in relation to a non-disabled standard on the job they are assigned at least every six months. For example, if an employee is producing 50 units per hour and the standard is 100 units then his rate of pay is 50% of the prevailing wage rate for that job. If the prevailing wage rate is \$7.50, the employee will receive \$3.75 per hour. The workshop still pays the employee \$7.50 for doing 100 units, the same amount a non-disabled worker would make. Commensurate wages do not mean less labor cost. The direct labor costs for workshops in fact are comparable to other similar business operations.

Generally overhead costs for workshops, including supervision, insurance, utilities, etc., are higher than in other similar businesses. Workshop employees, on the average, historically produce at one third of a non-disabled worker. If a normal business needs 10 employees to produce 10,000 widgets a month, a workshop would need 30 employees to do the same. This increase in the number of workers required tends to drive up normal overhead costs, i.e. supervision, space, insurance, utilities, etc. State and county aid have been the primary source for offsetting these additional costs.

Workshops continue to be the primary employment option for many people with disabilities, and workshops continue to be a cost effective means of providing employment. For every dollar in state aid provided to shops last year \$4.67 was generated by workshop in sales to make the program successful. Combined with the fact that other day programs are more than double the cost per participant, this makes workshops a win-win situation for not only individuals with disabilities but also the state and local taxpayers.